ARBOR MEMORIAL SERVICES INC.

ANNUAL REPORT 1999

Company Profile

Arbor Memorial Services Inc. is an Ontario corporation which, through wholly-owned subsidiaries, is engaged in providing interment rights, cremations, funerals and associated merchandise and services to its customers across Canada. It owns 44 cemeteries, 26 crematoria and 96 funeral homes (including 5 partially-owned funeral homes) in communities in all provinces except Newfoundland. The Company's cemeteries and funeral homes have been developed to provide services to many ethnic and religious groups in Canada. The cemetery properties range in size from approximately 25 to 180 acres and are staffed by permanent maintenance, administrative, and sales personnel.

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COVER: Zapotec Clay Effigy Urn, Central Mexico 5th or 6th Century AD.,
Photograph courtesy of the Royal Ontario Museum, ROM©

THE BURIAL AND FUNERARY CUSTOMS

OF DIFFERENT CULTURES, BOTH PAST AND PRESENT,

ARE VARIED.

FROM THE ANCIENT EGYPTIAN MUMMY MASK FEATURED

ON THE COVER OF OUR

1996 ANNUAL REPORT TO THE ZAPOTEC EFFIGY URN

FROM MEXICO ON THIS YEAR'S COVER,

EACH CULTURE DISPLAYS ITS DISTINCTIVENESS.

AT ARBOR MEMORIAL SERVICES,

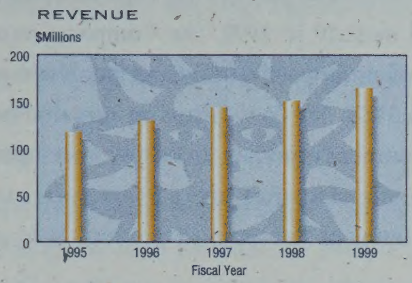
WE ARE COMMITTED TO PROVIDING UNIQUE PRODUCTS

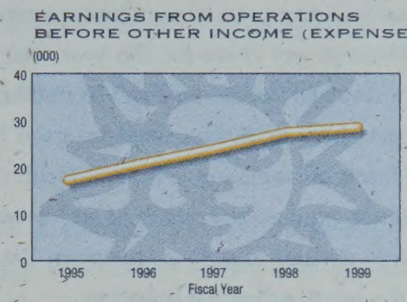
AND SERVICES THAT REFLECT AND

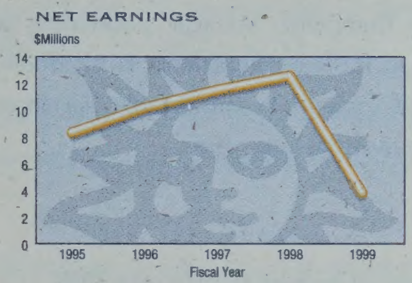
ACCOMMODATE THE INDIVIDUAL REQUIREMENTS

OF THE FAMILIES WE SERVE.

Company Highlights







YEARS ENDED OCTOBER 31	**1999**	1998	1997
	(53 weeks)	*(52 weeks)*	*(52 weeks)*
OPERATIONS		*($000)*	
Revenue	**165,192**	151,569	144,293
Earnings from operations before other income (expenses)	**28,530**	27,423	23,836
Net earnings	**3,808(1)**	12,570	11,503
Cash flow from operating activities	**13,141**	14,883	6,694(2)
PER SHARE DATA			
Earnings *($ per share)*	**0.36(1)**	1.19	1.09
Cash flow from operating activities *($ per share)*	**1.24**	1.41	0.64(2)
Weighted average number of shares outstanding *(000)*	**10,589**	10,585	10,515
MAJOR RESOURCES			
Cemeteries	**44**	44	44
Crematoria	**26**	26	25
Funeral homes(3)	**96**	94	84
Care funds *($000)*	**92,332**	85,443	78,211
Total assets *($000)*	**637,861**	602,166	503,939

(1) Net earnings and earnings per share in 1999 were net of $7.6 million in unusual expenses including the loss on sale of three funeral homes and a cemetery, interest and penalties on a partial income tax settlement and a provision for asset impairment. Excluding these items, net earnings would have been $11.5 million and earnings per share would have been $1.08 per share.

(2) Cash flow from operating activities in 1997 was net of a $6.0 million payment on deposit of prior years' income taxes and interest under possible reassessment, amounting to $0.57 per share.

(3) Arbor wholly owns 91 of the 96 funeral homes and has interests ranging from 40% to 48% in the remainder. Arbor is currently negotiating the disposal of three funeral homes.

After five consecutive years of significant earnings growth, Arbor Memorial Services Inc. experienced a setback in 1999. Earnings per share for the year were \$0.36 compared to \$1.19 in 1998. The Company recorded a number of unusual items totalling \$7.6 million after tax that had an impact on earnings per share of \$0.72. Earnings per share excluding these unusual items declined to \$1.08. The key factors in this decline were: increased levels of cremation; a more difficult competitive environment especially from low price operations; higher interest expense as a result of an increase in the average rate of interest; and a lower gross margin in the cemetery division due to a change in the mix of sales in terms of the types of products sold and the amount of sales at individual branches.

Despite the earnings decline, the Company's strategic positioning remains strong and our earnings performance compares favourably to leading competition. Furthermore, the Company did achieve many significant milestones in 1999, and undertook considerable development activity directed at building performance and shareholder value over the long term.

FINANCIAL PERFORMANCE

- Record revenue of \$165.2 million, an increase of 9.0% over 1998.
- Record cemetery sales of \$79.6 million, an increase of 5.8% over 1998.
- Record funeral sales of \$73.5 million, an increase of 11.0% over 1998.
- A 20.3% increase in investment income over 1998 to \$11.5 million.

DEVELOPMENT ACTIVITY

- Opening of Highland Hills Memorial Gardens in Gormley, Ontario in November 1998. The consumer response to this new cemetery has been outstanding. In its first year of operation, Highland Hills became one of the Company's highest revenue producers.
- Opening of the Company's first combination funeral home and cemetery sales office at Glenwood Memorial Gardens in Edmonton in June 1999. This new concept will improve customer service, reduce construction costs, and enhance the synergy between our cemetery and funeral business units.
- Start of construction of the Company's second combination funeral home and cemetery sales office at Glenlawn Memorial Gardens in Winnipeg.
- Start of construction of a funeral home on Sheppard Avenue in Toronto which market studies indicate is a high potential location.
- Pre-need funeral sales of \$30.3 million, up 10.5% from 1998. The total undelivered pre-need sales accumulated at the end of 1999 were the equivalent of 2.7 years of at-need sales, which was the same level as in 1998 and 0.3 years higher than in 1997.
- Acquisition of four funeral homes at a total cost of \$9.5 million. The Company now has 91 wholly-owned locations and a significant interest in 5 additional homes.

- Completion of a 484 crypt expansion at Glen Oaks Memorial Gardens in Oakville, Ontario.
- Start of construction of a 394 crypt expansion at Capital Memorial Gardens in Ottawa.

OTHER INITIATIVES

- Partial settlement with Revenue Canada on prior years' tax reassessments. While this settlement reduced earnings by $0.24 per share in 1999, we anticipate that cash flow from operating activities will improve by $6.1 million in 2000 including $0.7 million in interest income from funds originally placed on deposit. Another $6.7 million remains on deposit with Revenue Canada for other unresolved tax reassessments. We are proceeding to have these issues adjudicated in the courts.
- Divestiture of four unprofitable properties (three funeral homes and one cemetery). The divestitures resulted in a loss on sale after income taxes of $1.5 million, but will positively impact future earnings and cash flows.
- It is the Company's intention to continue its program of divesting under-performing properties in 2000. The sale of three funeral homes, four cemeteries and a parcel of land are currently being negotiated. In 1999, a $4.5 million provision for asset impairment included $3.6 million for the expected loss on sale of these properties as well as $0.9 million for impairment in the carrying value of other assets.
- The Company and the Ontario Association of Cemeteries have been working with the Ontario Government's Red Tape Commission to change the regulations under the Funeral Directors and Establishment Act and the Cemeteries Act to allow funeral homes to locate on cemetery property. Currently, Ontario and Prince Edward Island are the only provinces that do not allow funeral homes to be located on cemetery property.

OUTLOOK

Short-term earnings declines have occurred before in Arbor, and in many other companies. As we deal with the day to day concerns of the business, we strive to manage with our primary focus on the long term. Many of the initiatives we implemented in 1999 negatively impacted the short-term earnings but augur well for the longer term.

While our Company must respond to the changing state of our industry, the outlook for the Company is positive.

- Trends indicate an increasing demand for the services provided by the Company. Statistics Canada projections indicate that Canada's total population will grow by 21% from July 1, 1998 to July 1, 2016. More importantly, the over 65 age group, our primary customers, will increase by 54%.
- Arbor is uniquely positioned as the only company with national presence both in the funeral and cemetery sectors of our industry. This gives the Company the opportunity to better serve its customers and this benefit would be further enhanced if Ontario regulations were changed to permit funeral homes on cemetery property. Nineteen of the company's 44 cemeteries are located in Ontario.

- During 2000, we plan to begin implementation of Economic Value Creation (EVC), a financial management and compensation system developed by the Corporate Renaissance Group of Ottawa, Ontario. Under EVC, value is created when the Company generates returns in excess of its cost of capital. We believe this system is particularly suitable to Arbor, as we will be able to measure the return of each of our cemeteries and funeral homes.

- Arbor has an experienced, high performance management team and staff. As a result, the Company has a well-earned reputation for operational excellence.

- The Company is in sound financial condition and is well positioned to secure adequate financing for continued growth.

On behalf of the Board,

Richard D. Innes
President & Chief Executive Officer
December 21, 1999

RESULTS OF 1999 AND 1998 CONSOLIDATED OPERATIONS

The Company operates on a weekly basis and the financial year of the Company ends on the Sunday that falls on or immediately preceding October 31st. The 1999 fiscal year of the Company was composed of a 53 week period compared to a 52 week period in 1998.

Consolidated revenue was a record $165.2 million. This represented an increase of $13.6 million or 9.0% over 1998 revenue of $151.6 million. The following table provides a breakdown of revenue by source:

	1999		1998	
	(\$000)	**%**	*(\$000)*	*%*
Cemeteries				
At-need	**27,372**	**16.6**	25,091	16.5
Pre-need	**52,232**	**31.6**	50,142	33.1
	79,604	**48.2**	75,233	49.6
Funeral homes	**73,499**	**44.5**	66,214	43.7
Corporate	**576**	**0.3**	551	0.4
Total sales	**153,679**	**93.0**	141,998	93.7
Investment income	**11,513**	**7.0**	9,571	6.3
	165,192	**100.0**	151,569	100.0

Consolidated sales were $153.7 million, an increase of $11.7 million or 8.2% over 1998 sales of $142.0 million. The Company has achieved an average yearly sales increase of 9.6% over the last five years. Cemetery and funeral sales were $79.6 and $73.5 million respectively, compared to 1998 sales of $75.2 and $66.2 million.

Investment income increased $1.9 million compared with 1998. This was largely the result of a $1.7 million increase in the amount of pre-need funeral fees recognized. The pre-need funeral fees are received on the deposit of pre-need funeral funds under the trust program and group annuity program.

Pre-need cemetery funds increased by $5.0 million or 7.0% over 1998; however, the average rate of return on these funds decreased by 30 basis points. The decrease in the average rate of return was the result of maturing investments being reinvested at lower interest rates and an increase in the amount of equities in the fund portfolio. The net result was an increase in interest and dividend income of $0.1 million within cemetery funds over last year.

Care funds increased by $6.9 million or 8.1% over 1998; however, the average rate of return on these funds decreased by 20 basis points. The net result was that the associated interest and dividend income increased by $0.3 million or 5.6%.

Operating expenses increased in 1999 by $12.4 million or 11.0% and were 81.8% of sales compared to 79.8% in 1998, an increase of 2.0 percentage points. The increase as a percentage of sales was largely due to an increase in the cemetery cost of sales by 2.4 percentage points and an increase in the funeral cost of sales by 0.5 percentage points. The cemetery cost of sales increase was due to a change in the mix of sales both in terms of the mix of products sold and the amount of sales at individual branches. The funeral cost of sales increase reflects the more competitive marketplace year over year. It should be noted that the increase in operating expenses as a percentage of sales was partially the result of an improvement in 1998. The average operating expense percentage over the last five years was 82.1% of sales, which is higher than the 1999 percentage.

General and administrative expenses increased by $0.1 million or 0.8% over 1998. As a percentage of revenue, these expenses were 6.6% compared to 7.2% in 1998, a decrease of 0.6 of a percentage point. Over the last five years, general and administrative expenses as a percentage of sales have decreased by 1.5 percentage points.

Earnings from operations before other income and expenses increased by $1.1 million or 4.0% over 1998. This was a result of higher sales and investment income. The increase was partially offset by increased operating expenses.

The Company recorded a number of unusual expenses in 1999. These expenses totalled $7.9 million before the effect of income taxes. Of the $7.9 million, $1.6 million was for losses recorded on the sale of fixed assets, $4.5 million was a provision for asset impairment and $1.7 million was for interest and penalties on a partial tax settlement. The net effect of these items after income taxes was $7.6 million or $0.72 per share.

The losses recorded on the sale of fixed assets were largely due to the disposition of three under-performing funeral homes and one under-performing cemetery. These dispositions were part of the Company's long-term strategy to ensure that all assets achieve a return, at a minimum, greater than the Company's cost of capital. In 1998, the Company disposed of assets and generated a gain on sale of cemetery land of $0.4 million and a loss on disposal of fixed assets of $0.1 million. The asset disposals in 1999 generated net proceeds of $1.3 million while the asset disposals in 1998 generated net proceeds of $0.8 million. While the asset disposals in 1999 reduced after-tax earnings per share by $0.16, the Company believes that the disposals were in the best interest of the long-term financial health of the Company.

The Company intends to continue its strategy of divesting under-performing properties in 2000 and in that regard is currently negotiating the sale of three funeral homes, four cemeteries and a parcel of land. The $4.5 million provision for asset impairment includes $3.6 million for the expected loss on sale of these properties as well as $0.9 million for impairment in the carrying value of certain other assets of the Company. The total provision reduced after-tax earnings per share by $0.32.

The $1.7 million recorded for interest and penalties relates to a partial settlement of a reassessment by various income tax authorities of reserves claimed in previous years for amounts received for the future delivery of certain goods. The $1.7 million is net of interest income that is expected to be received on the prior deposit of funds made to reduce the Company's ultimate exposure with respect to non-deductible interest and penalties. The partial settlement reduced after-tax earnings per share by $0.24, however it was positive news for the Company since the total funds placed on deposit for this matter exceeds the settlement by $6.1 million. The Company anticipates that the $6.1 million will be refunded in fiscal 2000. The amount was recorded as income taxes receivable on the balance sheet.

Interest expense increased by $2.4 million over 1998. This was partially due to an increase of $26.5 million or 38.7% in the average long-term debt outstanding in the year and partially due to an increase of 100 basis points in the average rate of interest. The increase in the average rate of interest over 1998 was due to generally higher market rates of interest on the floating rate debt and a full year of the effect of the interest rate swap agreements that the Company entered into in February and October of 1998. The swap agreements fixed interest rates for a portion of the Company's debt at rates of 6.0% and 6.7%. At the end of 1999, the swaps represented 44.6% of the total bank term loans compared to 62.4% at the end of 1998.

The Company's effective tax rate increased from 48.0% in 1998 to 74.1% in 1999 (49.4% excluding the unusual items). The significant increase in the effective tax rate was a result of the following:

- the partial tax settlement which was non-deductible;

the divestiture of non-performing assets and the provision for impaired assets;

the non-deductible portion of assets purchased through the Company's acquisition program; and

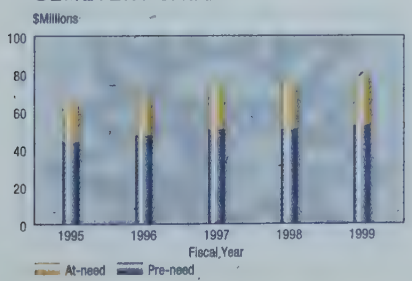
an increase in the large corporations tax as a result of the Company's increased asset base.

Net earnings for the year decreased $8.8 million compared to 1998. This translated to a decrease of $0.83 per share, from $1.19 in 1998 to $0.36 in 1999. Excluding the unusual items, net earnings would have been $11.5 million, a decrease of $1.1 million or 8.8% over 1998 and earnings per share would have been $1.08 per share, a decrease of $0.11 per share.

CEMETERIES

Cemetery sales in 1999 increased by $4.4 million or 5.8% over 1998, from $75.2 million to $79.6 million. Gross pre-need sales increased by $2.9 million or 5.8% while at-need sales increased by $2.3 million or 9.1%. Of the $4.4 million total increase, the Company's new cemetery, Highland Hills Memorial Gardens in Gormley, Ontario contributed a significant portion. From a product sales perspective, $1.9 million or 36.8% of the increase was attributable to upright monuments while $1.6 million or 31.3% was attributable to traditional burial lots. The Company has enjoyed continued success by focusing on growth opportunities, such as new products and services, and targeting specific customer segments, and has achieved an average yearly sales increase of 6.4% over the last five years.

CEMETERY SALES



The cancellation allowance expense increased by $0.9 million over 1998. This was due in part to the higher sales volume and to a higher than usual number of contracts being cancelled in the year. The five-year average cancellation rate on pre-need sales continued to decline in 1999. From 1995 to 1999, the rate has decreased by 2.4 percentage points, from 9.1% to 6.7%.

The following table provides a percentage breakdown of the cemetery products and services sold in 1999 and 1998:

PERCENTAGE OF SALES

	1999	1998
	%	%
Burial spaces	**39.6**	39.5
Memorials	**19.9**	20.6
Services	**17.8**	18.2
Bases/monuments	**12.1**	10.5
Vaults and liners	**5.3**	5.3
Urns	**5.3**	5.9
	100.0	100.0

Investment income increased by $0.3 million or 3.4%. The main contributor to the increase was care fund income, which increased by 5.6%.

On a year over year basis, the gross margin on pre-need sales decreased by 2.5 percentage points and the gross margin on at-need sales decreased by 0.1 of a percentage point. The main reason for the decrease in the pre-need gross margin percentage was a change in the mix of sales. In 1999, the Company sold more crypt burial spaces, lot burial spaces and upright monuments, which have a lower gross margin than other products.

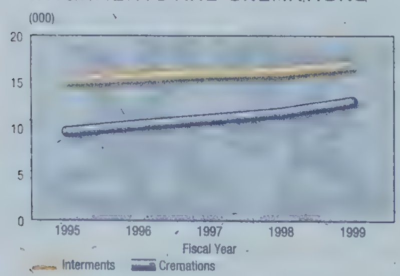
Selling and care and maintenance expenses increased by $0.8 million or 3.2% over 1998 as a

result of the increased sales and level of activity at the properties. However, these expenses decreased by 0.8 of a percentage point when expressed as a percentage of sales. Over the last five years, selling and care and maintenance expenses expressed as a percentage of sales have decreased by 3.5 percentage points, from 35.1% to 31.6%.

Earnings from cemetery operations before other income (expenses) decreased by $0.6 million or 3.5%. The decrease was attributable to the lower gross margin expressed as a percentage of sales, partially offset by an improvement in selling and care and maintenance expenses expressed as a percentage of sales.

In 1999, the number of interments performed by the Company increased by 4.3% to 16,907 and the number of cremations increased by 10.8% to 12,940. As shown below, the Company has seen an increasing trend in cemetery volume for a number of years. The more significant increase in cremation volume reflects the demand in the marketplace for this type of service and activity at new crematoria established by the Company.

INTERMENTS AND CREMATIONS



FUNERAL HOMES

Funeral home sales increased by $7.3 million or 11.0%, from $66.2 million in 1998 to $73.5 million in 1999. Acquired and constructed operations, which have not operated for a full year in either fiscal 1999 or 1998, contributed $7.0 million to the increase while existing operations contributed $0.7 million. Operations that were sold in the year accounted for a decrease of $0.4 million. In 1999, the Company acquired four funeral homes, constructed one on-site funeral home at Glenwood Memorial Gardens in Edmonton, Alberta and sold three funeral homes.

The following table shows the number of wholly owned funeral homes operated by the Company for 1999 and 1998:

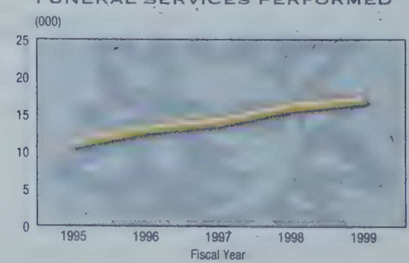
NUMBER OF FUNERAL HOMES

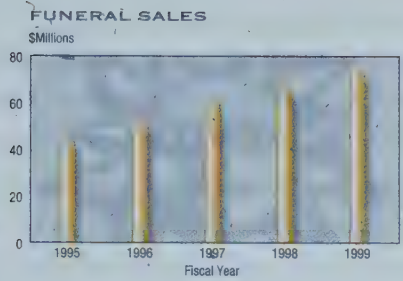
	1999	1998
Funeral homes, beginning of year	**89**	79
Acquired and constructed	**5**	10
Dispositions	**(3)**	–
Funeral homes, end of year	**91**	89

The number of funeral services performed at existing operations increased by 1.9%. The number of services performed by wholly-owned funeral homes increased by 1,754 or 11.3%, from 15,581 in 1998 to 17,335 in 1999. Of this increase, acquired and constructed operations contributed 1,566 additional services.

The average sale per funeral service performed at existing locations decreased by $31 or 0.7%. This decrease reflected the heightened competitive environment, particularly with respect to low price competitors.

FUNERAL SERVICES PERFORMED





Investment income increased by $1.6 million due to an increase in the fees recognized from the deposit of pre-need funeral funds under the trust program and group annuity program.

Earnings from funeral operations before other income (expenses) increased by $1.8 million or 9.4%, from $19.2 million in 1998 to $21.0 million in 1999, due to increased sales and investment income but partially offset by increases in operating expenses.

Cost of sales as a percentage of sales increased by 0.5 of a percentage point in 1999 over 1998 due to a shift in the mix of products sold and market conditions. Over the last five years, however, cost of sales as a percentage of sales has decreased by 1.9 percentage points and 1999 was the first year in five years that there was an increase.

Other operating expenses increased by $5.9 million or 15.6%. The increase was largely the result of acquired and constructed funeral homes.

The Company's focus on expanding pre-need funeral sales and the number of its funeral operations caused deferred revenue from pre-need funeral sales to increase by $15.8 million or 8.8% over 1998, for a total of $195.9 million. The total undelivered pre-need funeral sales accumulated at the end of 1999 translated to 2.7 years of at-need sales, which was the same number as at the end of fiscal 1998. Total pre-need sales completed in 1999 were $30.3 million compared to $27.5 million in 1998. This represented an increase of $2.8 million or 10.2%.

CORPORATE

Corporate revenue, which is largely rental income from leasing a portion of the Company's head office building for office or retail space, was $0.6 million, up 4.5% over 1998.

Corporate expenses increased by $0.1 million, from $10.8 million in 1998 to $10.9 million in 1999. As a percentage of total Company revenue, these expenses decreased from 7.2% in 1998 to 6.6% in 1999 and have decreased by 1.5 percentage points over the last five years.

In 1999, the Company substantially completed the conversion of the cemetery operating system to a PC based system. The estimated total cost of implementing the new system was $2.3 million. The Company is also continuing its efforts to similarly convert the funeral operating system. The estimated cost of converting the funeral system is $1.5 million.

CAPITAL EXPENDITURES AND ACQUISITIONS

During the year, the Company incurred capital expenditures, excluding funeral home acquisitions, of $17.2 million compared to $24.9 million in 1998. Details of the capital expenditures by segment follow:

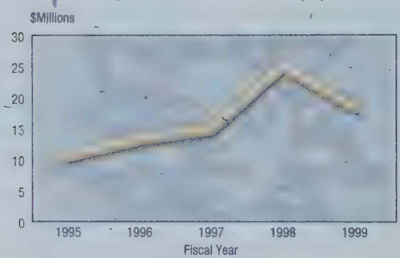
	1999	1998
	($ Millions)	
Cemetery	**6.8**	8.2
Funeral	**9.6**	15.7
Corporate	**0.8**	1.0
	17.2	24.9

The funeral expenditures included $3.2 million for the development of combination funeral homes and cemetery sales offices at existing cemeteries including Glenwood Memorial Gardens in

Edmonton and Glenlawn Memorial Gardens in Winnipeg. The Glenwood funeral home opened in June 1999 and the Glenlawn funeral home is expected to open in the spring of year 2000. Funeral expenditures also included $0.8 million for the partial development of a new funeral home in Toronto and $3.1 million for additions and renovations at three existing locations.

In November 1998, the Company opened a new cemetery in Gormley, Ontario called Highland Hills Memorial Gardens. The cemetery serves the needs of Whitchurch-Stouffville and the surrounding area. The cemetery capital expenditures included $0.8 million for development of this location.

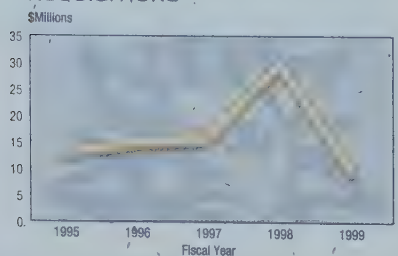
CAPITAL EXPENDITURES (1)



(1) Excluding funeral home acquisitions

In 1999, the Company acquired four funeral homes for $9.5 million, compared with the acquisition of 10 funeral homes for $29.5 million in 1998. The Company now owns or has interests in 96 funeral homes and expects to make further acquisitions in 2000.

INVESTMENT IN FUNERAL HOME ACQUISITIONS



Capital expenditures and acquisitions in 1999 were financed by cash generated from operating activities and bank debt. The Company expects to spend $21.0 million on capital projects in 2000, including $1.6 million to purchase the land and building of an existing funeral home in Kingston, Ontario, $1.5 million to complete a combination on-site funeral home and cemetery sales office at Glenlawn Memorial Gardens in Winnipeg, Manitoba and $1.3 million to complete a new funeral home in Toronto, Ontario.

New garden development and the replenishment of the crypt and niche inventory is essential to attaining cemetery sales targets. To this end, $4.9 million was spent in 1999 on crypts and niches (1998 – $12.5 million), including $1.8 million for the mausoleum expansion at Glendale Memorial Gardens in Etobicoke, Ontario and $0.8 million for the development of a new mausoleum at Glen Oaks Memorial Gardens in Oakville, Ontario. The Company expects to spend $3.0 million on additional crypt and niche inventory in 2000, including $1.6 million to complete a mausoleum expansion at Capital Memorial Gardens in Ottawa, Ontario, and a further $1.0 million on garden development.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities in 1999 was $13.1 million compared to $14.9 million in 1998. This translated to a $1.7 million or 11.7% decrease. The decrease was largely due to the increase in interest expense partially offset by an increase in earnings from operations before other income and expenses. Changes to certain operating balance sheet items such as deferred taxes, pre-need funds and merchandise, deferred revenue, income taxes on deposit and income taxes recoverable also had an impact. Management believes that cash flow from operating activities is sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets.

While the Company was able to negotiate a partial settlement of reassessments from Revenue Canada

and various provincial taxation authorities relating to the 1987 to 1995 taxation years, the issue respecting reserves claimed for the sale of interment rights remains unresolved. In this regard, $6.7 million remains on deposit with the various income taxation authorities. The Company believes that it has substantial arguments to support its position, however, the deposit was made to limit the Company's exposure to non-deductible interest expense and penalities should it be unsuccessful. The Company is proceeding to have this issue adjudicated in the courts. The decrease in deferred income taxes on the balance sheet was largely due to a $5.1 million reduction as a result of the partial settlement of prior years' reassessments.

In 1999, there were no stock options granted and there were no options exercised. However, 4,500 options were cancelled in the year. In 1998, the Company issued 12,000 Class B Non-Voting Shares for cash proceeds of $0.2 million, pursuant to exercised stock options. Proceeds from the issuance of these shares were used for general corporate purposes. Also in 1998, the Company issued 138,500 stock options to its employees under the stock option plan approved by shareholders in 1994.

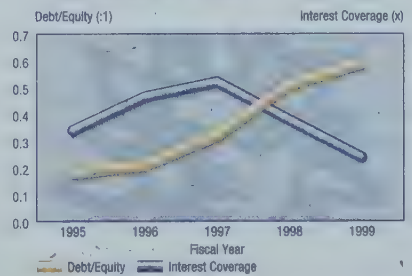
Long-term debt at the end of 1999 was $103.3 million as compared with $87.0 million at the end of 1998. Of the $16.3 million increase, $9.5 million was due to the acquisition of funeral homes, $4.0 million was for the development of new funeral homes and the remainder was for other capital expenditures such as improvements to existing buildings and the development of crypt and niche structures and cemetery gardens. The Company has satisfied the debt covenants as defined in the provisions of its bank loan agreements.

During the year, the Company increased its committed term facilities from $100 million to $125 million and its operating lines of credit from $12 million to $14 million under substantially the same terms and conditions. It is expected that the increased term facilities and cash flow from operating activities will be sufficient to fund the Company's planned capital expenditures, additions to crypt and niche inventory and the development of cemetery gardens. The Company has ongoing discussions with its bankers regarding further financing in the event it is required for future cemetery and funeral home acquisitions.

In February and October of 1998, the Company entered into two interest rate swaps to reduce its exposure to interest rate fluctuations. At the end of 1999, the notional amount of the swaps was $43.2 million compared to $48.8 million at the end of 1998. The result of the swaps was that interest rates for a significant portion of the Company's term loans were fixed at rates of 6.0% and 6.7%. The swaps also caused the Company's interest expense to be higher in 1998 and 1999 than would otherwise have been the case if the Company had maintained all floating rate debt. At October 31, 1999, the total unrealized gain with respect to the swaps was $0.4 million compared to a loss of $1.4 million at the end of 1998. It is management's intention to hold the swaps until their maturity in 2008.

The Company's debt to equity and interest coverage ratios relative to earnings from operations before other income (expenses) for the last five years are summarized below:

DEBT/EQUITY AND INTEREST COVERAGE RATIOS



In 1999, instalment accounts receivable increased by $3.9 million over 1998, due primarily to the increase in pre-need funeral sales. Approximately 48.2% of these accounts receivable relate to amounts to be placed in trust and sales tax, with the Company retaining the remainder. This percentage excludes amounts receivable in respect of merchandise to be purchased and stored in the future.

Accounts receivable arising from at-need funeral transactions were paid on average within 29 days for both fiscal 1998 and 1999.

Pre-need funds and merchandise, together with that portion of instalment accounts receivable due to trust funds set aside under statutory requirements, increased by $27.2 million or 10.0% over 1998 to $297.4 million in 1999. This amount exceeds the provision for future delivery plus anticipated costs of completing the obligations included in deferred revenue by approximately $67.6 million.

PROSPECTS

Arbor is uniquely positioned as the only company with national presence both in the funeral and cemetery sectors of our industry. With this important competitive advantage, its established base of pre-arranged services at its cemeteries and funeral homes and demographic trends indicating a long-term increase in demand for its services, the Company considers that it is well positioned for future sales growth. The Company also intends to continue developing new cemeteries and funeral homes, expanding current cemeteries and acquiring funeral homes. The establishment of funeral homes at cemetery sites will be a priority.

When acquiring or developing new funeral homes, the Company calculates the net present value of future cash flows and will only acquire a funeral home if the net present value exceeds its cost of capital. Within this context, the Company assesses the benefits to be gained by clustering with other Company funeral homes, synergy with nearby Company cemeteries and the development of new markets.

The Company and the Ontario Association of Cemeteries have been working with the Ontario Government's Red Tape Commission to change the regulations under the Funeral Directors and Establishment Act and the Cemeteries Act to allow funeral homes to locate on cemetery property. Currently, Ontario and Prince Edward Island are the only provinces that do not allow funeral homes on cemetery property. If the Government changes the regulations, the Company will further enhance its ability to serve its customers. Nineteen of the company's 44 cemeteries are located in Ontario.

In the year 2000, the Company intends to implement Economic Value Creation or EVC. EVC is a financial management and compensation tool developed by the Corporate Renaissance Group of Ottawa, Ontario. Under EVC, value is created when the Company generates returns in excess of its cost of capital. The Company believes that this tool is particularly suitable for Arbor since it is possible to measure the return of each of its cemeteries and funeral homes individually. EVC will also be useful in ensuring that operating managers are aware of and accountable for the capital employed in their operations.

In 1999, the Trustee Act in Ontario was amended to permit greater latitude in the investment of pre-need cemetery funds and care funds. As a result, the Company has shifted some of its holdings in government bonds to corporate bonds and stocks in order to improve its return on investment and to realize the income tax benefits of dividend income versus other types of investment income.

Legislative amendments of funeral and cemetery statutes came into force December 1, 1998 in Alberta. The new Alberta legislation changed the trusting requirements for pre-need funeral sales from 100% to 85% and from 50% to 85% for pre-need cemetery sales. In addition, the investment income earned in the pre-need funeral and cemetery trust funds will no longer be paid out as earned but will remain in the fund until the contract has been fulfilled. These legislative changes decreased cash flow from operating activities in 1999 by $1.5 million.

The Government of Saskatchewan has passed new cemetery and funeral legislation which to date has not been proclaimed. The impact of the new legislation on the Company cannot be determined until the Regulations are finalized. In 1999, the Company accepted the interpretation that cremations should be considered a funeral service and therefore funded at 100% instead of 50%. This change was retroactive to 1995. The Company has calculated and remitted the required additional funding for 1995 and 1996 in the amount of $0.2 million and will make similar remittances for future years.

The Governments of Ontario and Quebec recently finalized new cremation emission standards. The legislation in Ontario will require the Company to purchase more expensive cremation equipment for future installations or future retrofits to current equipment. The change to the legislation in Quebec has had the effect of increasing its emission standards to the highest level, both nationally and internationally. The legislation is effective for existing and future installations. The Company's estimate of the cost to retrofit and/or replace its existing equipment is $0.5 million.

YEAR 2000 ISSUE

The Company's Year 2000 Project began in early 1997 and is being managed by a Year 2000 Management Committee that reports quarterly to the Board of Directors. An initial review of the Company's systems and electronic data exchanges found that few systems changes were required. Further analysis and testing in 1998 and 1999 have supported the early findings. In 1999, changes were implemented and tested.

The delivery of the majority of Arbor's services and products are independent of the Company's computer systems. With two exceptions, there are multiple sources available to the Company for its critical supplies, lessening the exposure to the Company of the impact of Year 2000 as a result of third party failure. Discussions with these two suppliers have identified preparatory measures and contingency plans. These comments clearly exclude utilities, whose prolonged failure to supply could create problems on a far larger scale than one corporation. Contingency plans have been developed in anticipation of such events, to the extent possible.

The estimated total cost to address Year 2000 compliance issues is $0.3 million, the majority of which has already been spent. Approximately half of the costs, which relate to assets that also have a future benefit beyond addressing the Company's Year 2000 issues, have been capitalized and amortized in accordance with the Company's policies for similar assets. The remainder has been expensed.

Arbor's Year 2000 plans were reviewed by an outside consultant for consistency with best practices and the Company is satisfied that the plans are appropriate.

Management's Responsibility for the Consolidated Financial Statements

The consolidated financial statements, including the notes thereto, and other financial information contained in the annual report are the responsibility of the management of Arbor Memorial Services Inc. The financial statements have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements where appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board, which is comprised of non-management directors, meets with management and the auditors to satisfy itself that these responsibilities are properly discharged and to review the consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors, which approves the consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders of the Company, have audited the Company's consolidated financial statements in accordance with generally accepted auditing standards. The shareholders' auditors have full and unrestricted access to the Audit Committee.

Richard D. Innes
President and Chief Executive Officer

Brian D. Snowdon
Vice-President and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Arbor Memorial Services Inc. as at October 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
December 9, 1999

Consolidated Statements of Earnings and Retained Earnings

YEARS ENDED OCTOBER 31	1999	1998
	(53 weeks)	(52 weeks)
	($000)	
REVENUE		
Sales	153,679	141,998
Investment income (note 4)	11,513	9,571
	165,192	151,569
EXPENSES		
Operating	125,743	113,311
General and administrative	10,919	10,835
	136,662	124,146
EARNINGS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	28,530	27,423
OTHER INCOME (EXPENSES)		
Loss on sale of fixed assets (note 18)	(1,612)	(69)
Gain on sale of cemetery land	–	415
Provision for asset impairment (note 18)	(4,543)	–
Interest and penalties on partial settlement of prior years' income taxes (note 12)	(1,700)	–
	(7,855)	346
EARNINGS FROM OPERATIONS	20,675	27,769
Interest expense	(5,987)	(3,609)
Earnings before income taxes	14,688	24,160
Income taxes (note 12)	10,880	11,590
NET EARNINGS	3,808	12,570
Retained earnings, beginning of year	99,144	87,316
Dividends	(742)	(742)
RETAINED EARNINGS, END OF YEAR	102,210	99,144
EARNINGS PER SHARE (note 14)	$ 0.36	$ 1.19

Consolidated Balance Sheets

AS AT OCTOBER 31	1999	1998
	($000)	
ASSETS		
Current assets		
Cash	**2,298**	124
Accounts receivable	**13,897**	13,240
Income taxes receivable (note 12)	**6,100**	–
Merchandise inventories	**9,686**	9,356
Instalment accounts receivable, current portion (note 5)	**33,869**	30,812
	65,850	53,532
Income taxes on deposit (note 12)	**6,749**	19,649
Instalment accounts receivable (note 5)	**27,996**	27,122
Crypts and niches	**27,782**	28,849
Cemetery land		
– fully or partially developed	**13,378**	11,270
– held for future development	**23,263**	24,667
Pre-need funds and merchandise (note 6)	**277,968**	254,928
Fixed assets (note 7)	**138,187**	126,315
Goodwill – net of accumulated amortization of $8,700 (1997 – $7,019)	**50,669**	49,130
Other assets	**6,019**	6,704
	637,861	602,166
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**24,163**	23,681
Income taxes payable	**2,508**	509
Amounts payable in respect of care funds (note 8)	**6,706**	5,964
Long-term debt, current portion	**2,428**	9,897
	35,805	40,051
Deferred revenue	**195,880**	180,047
Provision for future delivery (note 9)	**86,880**	85,540
Long-term debt (note 10)	**100,894**	77,094
Deferred income taxes	**43,738**	47,836
	463,197	430,568
SHAREHOLDERS' EQUITY		
Share capital (note 11)	**72,454**	72,454
Retained earnings	**102,210**	99,144
	174,664	171,598
	637,861	602,166

On behalf of the Board,

Daniel J. Scanlan, *Director*

Richard D. Innes, *Director*

Consolidated Statements of Cash Flows

YEARS ENDED OCTOBER 31	1999 (53 weeks)	1998 (52 weeks)
	($000)	
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net earnings	**3,808**	12,570
Add (deduct) items not affecting cash from operating activities:		
Depreciation and amortization	**7,694**	6,585
Loss on sale of fixed assets	**1,612**	69
Provision for asset impairment	**4,543**	–
Deferred income taxes	**(3,179)**	5,511
Net change in other operating balance sheet items (note 15)	**(1,337)**	(9,852)
	13,141	14,883
INVESTING ACTIVITIES		
Purchases of fixed assets	**(17,238)**	(21,475)
Acquisitions of funeral homes (note 3)	**(8,371)**	(25,776)
Additions to cemetery land	**(1,202)**	(3,464)
Proceeds on sale of fixed assets	**1,340**	339
	(25,471)	(50,376)
FINANCING ACTIVITIES		
Net increase in long-term debt	**15,246**	33,038
Dividends	**(742)**	(740)
Issue of shares	**–**	231
	14,504	32,529
INCREASE (DECREASE) IN CASH	**2,174**	(2,964)
Cash, beginning of year	**124**	3,088
CASH, END OF YEAR	**2,298**	124

SUPPLEMENTARY INFORMATION		
Income taxes paid	**6,968**	5,156
Interest paid	**6,022**	3,641

1. NATURE OF OPERATIONS

Arbor Memorial Services Inc. (the Company) provides products and services in the death care industry in Canada. Through its subsidiaries, the Company offers a complete line of cemetery and funeral merchandise and services. As at October 31, 1999, the Company operated 44 cemeteries, 26 crematoria, 91 funeral homes and had interests in another 5 funeral homes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all corporations which it controls. Investments in associated corporations, in which the Company has significant influence, are accounted for by the equity method.

Accounting period

The financial year of the Company consists of a 52 or 53 week period ending on the Sunday that falls on or immediately preceding October 31st.

Valuation of assets and liabilities

Instalment accounts receivable

Instalment accounts receivable are recorded net of unearned finance charges relating thereto, a provision for cancellations and an allowance for doubtful accounts.

Inventories

Merchandise inventories are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Crypts and niches

Crypts and niches are carried at the lower of cost and net realizable value.

Cemetery land

Cemetery land is recorded at the lower of cost, which includes development costs, and net realizable value.

Pre-need funds and merchandise

Pre-need funds and merchandise, representing funds and merchandise set aside with trustees and suppliers to meet statutory or contractual obligations of pre-need and storage sales, are recorded at cost, less a provision for loss in respect of individual investments where market value is below cost and this decline appears to be other than temporary.

Fixed assets

Fixed assets are recorded at the lower of cost and net recoverable amount and are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	40 years
Equipment and furniture	10 years
Automotive equipment	7 to 10 years
Leasehold improvements	over term of lease
Other assets	3 to 25 years
Property under capital lease	40 years

Construction in progress is not depreciated until the fixed assets are put into operation.

Goodwill

Goodwill is recorded at cost and is amortized on a straight-line basis over a period of forty years. The Company assesses the recoverability of the carrying value of goodwill each year on a location by location basis by reference to the underlying operating income of the location. A provision is recorded if the process indicates an impairment in the carrying value of goodwill that is other than temporary.

Income taxes

The Company records income taxes using the deferral method.

Provision for future delivery

The provision for future delivery of cemetery merchandise and services sold under pre-need agreements is based upon a calculation made by a firm of consulting actuaries. The amount of the provision is the estimated present value of the Company's obligation for the future delivery of such merchandise and services. This estimate requires the use of assumptions regarding rates of inflation, investment returns on pre-need funds and mortality rates, and considers the relevant provisions of the various cemetery sales agreements and the delivery arrangements made by the Company. Actuarial gains or losses due to current price adjustments are recognized over a period of 10 years. For these agreements the average period from the balance sheet date to time of delivery is approximately 11 years.

Provision for future delivery of merchandise sold under cemetery storage agreements is recorded at the cost of such merchandise at the date of the sales agreement. The merchandise is purchased upon payment in full of the sales agreement and is stored until delivery.

Recognition of Revenue

At-need sales and pre-need cemetery sales

Revenue from at-need sales and pre-need cemetery sales is recorded at the date of the sales agreement. Contracts for pre-need cemetery merchandise and services are cancellable prior to delivery, estimates of the effect of which have been provided for in the accounts.

Pre-need funeral sales

Funds received through sales under pre-need funeral programs are either deposited in trust or with a third-party insurer under a group annuity program, at the direction of the customer and to the extent required by provincial legislation.

Revenue from sales of pre-need funeral services and merchandise, their related costs and accumulated interest under the trust or annuity programs are deferred and recorded as sales on the date of delivery.

The Company receives fees on the deposit of pre-need funeral funds under the trust program and the annuity program. These fees are recorded in income, net of an allowance for those fees subject to refund.

Investment income, gains and losses

Interest and dividend income on pre-need cemetery and care funds is recorded on the accrual basis. Gains and losses on the sale of investments held in pre-need cemetery funds are taken into income when realized.

Finance charges

Finance charges on the uncollected balance of instalment accounts receivable are collectible over the term of the sales agreement and are taken into income using the sum-of-the-digits method.

ACQUISITIONS

In 1999, the Company acquired 4 funeral homes (1998 – 10 funeral homes). The acquisitions have been accounted for by the purchase method under which the results of the operations since the date of acquisition are included in these financial statements. Details of the acquisitions follow:

	1999	1998
	($000)	
Assets acquired:		
Accounts receivable	**455**	1,170
Merchandise inventories	**113**	352
Pre-need funds	**4,661**	23,403
Fixed assets	**3,570**	13,433
Deferred income taxes	**919**	–
Other assets	**2**	72
	9,720	38,430
Liabilities assumed:		
Accounts payable	**354**	1,207
Deferred revenue	**4,661**	23,403
Deferred income taxes	**–**	15
	5,015	24,625
Net assets acquired	**4,705**	13,805
Goodwill arising on acquisitions	**4,751**	15,656
Total consideration	**9,456**	29,461
Total consideration composed of:		
Cash	**8,371**	25,776
Notes payable	**1,085**	1,686
Obligation under capital lease	**–**	1,999
	9,456	29,461

4. INVESTMENT INCOME

	1999	1998
	($000)	
Pre-need cemetery funds	**3,751**	3,688
Care funds (note 8)	**5,493**	5,201
Pre-need funeral funds	**1,813**	158
Net gain on sale of investments	**142**	160
Share of net earnings of associated corporations	**207**	247
Other	**107**	117
	11,513	9,571

5. INSTALMENT ACCOUNTS RECEIVABLE

Instalment accounts receivable are collectible as follows:

	1999	1998
	($000)	
1st year	**33,869**	30,812
2nd year	**15,333**	14,630
3rd year	**7,813**	7,872
4th year	**3,857**	3,737
5th year and thereafter	**993**	883
	61,865	57,934
Less: current portion	**33,869**	30,812
	27,996	27,122

The Company enters into sales contracts with numerous consumers, including groups, but no one consumer or group accounts for a significant concentration of credit risk. The carrying value of the instalment accounts receivable approximates its fair value.

6. PRE-NEED FUNDS AND MERCHANDISE

Pre-need funds consist of investments with fixed and floating interest rates and equity securities. Amounts classified as term deposits are invested over a period of 1 to 3 years (1998 – 1 to 3 years) at the prevailing rate of interest. The bonds have a weighted average maturity and interest rate of 6 years and 6.2% respectively (1998 – 6 years and 6.3%). Due to interest rate changes, the Company may realize gains and losses on the disposal of bonds, if sold before their maturity. Pre-need funds become available to the Company when merchandise and services have been delivered.

	1999	1998
	($000)	
Term deposits	**164,057**	159,804
Bonds (quoted market value $71,376; 1998 – $65,327)	**72,738**	63,297
Stocks (quoted market value $14,673; 1998 – $7,641)	**15,486**	7,334
Merchandise in storage	**25,687**	24,493
	277,968	254,928

7 FIXED ASSETS

	Cost		Accumulated depreciation and amortization		Net book value	
	1999	1998	**1999**	1998	**1999**	1998
			($000)			
Land	**32,575**	32,022	**–**	–	**32,575**	32,022
Buildings	**97,188**	89,887	**28,550**	27,147	**68,638**	62,740
Equipment and furniture	**31,580**	30,264	**21,950**	20,505	**9,630**	9,759
Automotive equipment	**17,925**	16,339	**12,019**	11,467	**5,906**	4,872
Leasehold improvements	**5,330**	5,117	**4,772**	4,561	**558**	556
Other assets	**17,765**	14,424	**4,896**	4,121	**12,869**	10,303
Construction in progress	**6,060**	4,068	**–**	–	**6,060**	4,068
Property under capital lease	**1,999**	1,999	**48**	4	**1,951**	1,995
	210,422	194,120	**72,235**	67,805	**138,187**	126,315

CARE FUNDS

Care funds collected and set aside with trustees total $92,332,000 (1998 – $85,443,000) at carrying value and $90,605,000 (1998 – $88,870,000) at quoted market value. The Company has the right to the income from these funds (1999 – $5,493,000; 1998 – $5,201,000) for the care and maintenance of its cemeteries. However, the assets of the funds are not the property of the Company and accordingly are not recorded as assets in these financial statements. The amounts payable of $6,706,000 (1998 – $5,964,000) are the uncollected portion of instalment accounts receivable which will become payable into trust upon collection of the receivable.

The care funds are generally invested in medium term government and corporate bonds and held to maturity. The funds mostly earn income at fixed rates of return.

9. PROVISION FOR FUTURE DELIVERY

	1999	1998
	($000)	
Merchandise and services sold on a pre-need basis	**46,743**	47,457
Merchandise sold on a storage basis:		
– purchased and stored until delivery	**25,687**	24,493
– to be purchased and stored in the future	**14,450**	13,590
	86,880	85,540

10. LONG-TERM DEBT

	1999	1998
	($000)	
Bank term loans due 2004	**96,795**	78,205
Mortgages and notes payable due 2000 to 2004	**4,548**	6,798
Obligation under capital lease at 6.5%, due 2000 to 2008	**1,979**	1,988
	103,322	86,991
Less current portion	**2,428**	9,897
	100,894	77,094

The weighted average interest rate on the mortgages and notes payable is 5.7%.

The Company has various bank lines of credit available, consisting of operating lines and revolving term loans aggregating $14 million (1998 – $12 million) and $125 million (1998 – $100 million) respectively. The term loans have five year terms subject to annual renewal. If the banks do not renew, the term loans are automatically converted to a reducing term facility repayable in the following manner: (i) quarterly reductions equal to 1/40th of the outstanding amount of the facility commencing 15 months from the date of conversion; and (ii) repayment of the entire unpaid principal balance 4 years from the conversion date. The operating lines of credit are undrawn and are due on demand.

The Company has entered into two interest rate swap agreements with a total notional amount of $43.2 million (1998 – $48.8 million) whereby the Company has fixed its financing at interest rates ranging from 6.0% to 6.7%. The remainder of the term loans are subject to floating interest rates based on Bankers' Acceptances.

Security for the term loans consists of a floating charge and security interest over all assets of the Company except for fully or partially developed cemetery land, amounts included in accounts receivable which are due to trust funds, crypts and niches and pre-need funds and merchandise. Security for the operating lines consists of accounts receivable, instalment accounts receivable (net of amounts due to trust funds) and merchandise inventories and ranks senior to the term loans.

The bank loan agreements contain various restrictive provisions including: (i) maintenance of specific debt to cash flow and debt service ratios; (ii) limitation on the reduction of tangible net worth with respect to the payment of dividends and the acquisition by the Company of its own shares; (iii) restriction on the nature and amount of specific guarantees and additional debt; and (iv) consent for the disposition of the Company's real property.

The fair value of the Company's bank term loans approximates the carrying value given their floating rate nature. The carrying value of the remainder of the long-term debt is $6,527,000 (1998 – $8,786,000) and the estimated fair value is $6,347,000 (1998 – $8,663,000).

The Company's use of derivative financial instruments is limited to interest rate swaps that fix a portion of the Company's financing cost. The Company has two (1998 – two) interest rate swaps outstanding. The interest rate swaps are for a period of 10 years with the notional amount amortized quarterly on a straight-line basis. The swaps will be fully amortized in 2008.

The fair value of the interest rate swaps is estimated as the discounted unrealized gain or loss calculated based on the market price at October 31, 1999, which generally reflects the estimated amount that the Company would receive or pay to terminate the contracts at the balance sheet date. The estimated fair value of the interest rate swaps is a gain of $439,000 (1998 – loss of $1,420,000). Losses due to non-performance by the counter-party are not anticipated due to their high credit standing.

Interest expense on long-term debt for 1999 and 1998 amounted to $5,987,000 (including net swap costs of $422,000) and $3,609,000 (including net swap costs of $98,400) respectively.

The amount of principal payable over each of the next five years and thereafter is as follows:

	($000)
2000	2,428
2001	5,764
2002	10,250
2003	10,242
2004	60,659
2005 and thereafter	13,979
	103,322

11. SHARE CAPITAL

(a) Authorized:

Unlimited number of Preferred Shares
Unlimited number of Class A Voting Shares
Unlimited number of Class B Non-Voting Shares

(b) Issued:

	1999	1998
	($000)	
2,525,497 Class A Shares	**1,734**	1,734
8,063,746 Class B Shares	**70,720**	70,720
10,589,243	**72,454**	72,454

The Class A and Class B shares have identical rights and privileges, except that the Class A shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A shares from each holder in Ontario, each Class B share is convertible into one Class A share.

(c) Share purchase options:

The Company has the following options outstanding for the purchase of Class B shares:

Number of Shares	Exercise Price	Expiry	Exercise Date
6,000	$7.43	January 17, 2000	exercisable currently
112,300	$19.25	June 2, 2005	exercisable currently
45,000	$29.36	January 29, 2007	15,000 exercisable January 29, 2000, 15,000 exercisable January 29, 2001 and 15,000 exercisable January 29, 2002
134,500	$23.50	December 17, 2008	20% on the first anniversary (December 17, 1998) and 20% in each subsequent year on the anniversary date until the fifth anniversary

During the year, no options were exercised and 4,500 options were cancelled. In 1998, certain options were exercised and 12,000 Class B shares were issued for cash proceeds of $231,000.

INCOME TAXES

	1999	1998
	%	%
Combined basic federal and provincial income tax rate	**45.1**	45.3
Increase (decrease) in the basic tax rate resulting from:		
Non-deductible interest and penalties on partial settlement of prior years' income taxes	**10.8**	0.0
Impaired assets	**9.9**	0.0
Non-deductible amortization of excess of acquisition cost over book value	**5.9**	2.1
Large corporations tax	**3.4**	1.9
Other items	**(1.0)**	(1.3)
Effective income tax rate	**74.1**	48.0

The Company negotiated a settlement with respect to reassessments by various income tax authorities regarding reserves claimed in previous years for amounts received for the future delivery of certain merchandise. The settlement resulted in a reduction of $12.9 million in income taxes on deposit, a reduction in deferred taxes of $5.1 million, the recognition of income taxes receivable of $6.1 million and a charge of $1.7 million to the income statement, representing interest and penalties net of interest income.

The remaining $6.7 million of income taxes on deposit relates to a reassessment by various income tax authorities with respect to reserves claimed for the sale of interment rights. The Company is contesting these reassessments and previously paid an estimate of the taxes and interest relating thereto to reduce its exposure to non-deductible interest and penalties in the event it is unsuccessful. The outcome of this dispute is not presently determinable.

Should it be completely unsuccessful in defending its position on interment rights, the Company would record $3.1 million as a charge to earnings, relating primarily to the accumulated interest up to the date the deposits were made, a $3.6 million reduction of deferred income taxes and a $6.7 million reduction of income taxes on deposit.

OPERATING LEASE COMMITMENTS

The Company is committed to approximately $5,333,000 under operating leases for premises and equipment. Two leases provide for an escalation adjustment for the years 2000 to 2004 inclusive. The minimum annual payments over the next five years and thereafter are as follows:

	($000)
2000	2,183
2001	1,347
2002	858
2003	508
2004	425
2005 and thereafter	12
	5,333

14. EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of shares outstanding during the year of 10,589,243 (1998 – 10,584,925).

Fully diluted earnings per share do not differ materially from basic earnings per share.

Earnings per share in 1999, excluding the after-tax effect of other income (expenses) was $1.08 (1998 – $1.17).

15. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	1999	1998
	($000)	
(Increase) decrease in assets:		
Income taxes receivable	**(6,100)**	–
Merchandise inventories	**(320)**	(1,593)
Instalment accounts receivable	**(4,068)**	(5,037)
Income taxes on deposit	**12,900**	–
Crypts and niches	**551**	(7,795)
Pre-need funds	**(19,036)**	(16,602)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	**138**	1,293
Income taxes payable	**1,999**	1,457
Deferred revenue	**11,172**	14,146
Provision for future delivery	**1,645**	3,689
Other changes	**(218)**	590
	(1,337)	(9,852)

16. SEGMENT DISCLOSURE

The Company has three reportable segments: cemetery, funeral and corporate. The cemetery segment sells cemetery merchandise and services. The funeral segment sells funeral merchandise and services. The corporate segment's responsibilities include strategy development, human resource management, capital investment decisions and performance monitoring of the cemetery and funeral operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on earnings from operations.

The Company's reportable segments are strategic business units that offer different products and services. The nature of these products and services do overlap in some instances in the cemetery and funeral segments. However, these segments are managed separately and have different regulatory requirements.

All of the Company's revenues are derived in Canada and all of the Company's capital assets and goodwill are located in Canada.

	Cemetery		Funeral		Corporate		Consolidated	
	1999	1998	**1999**	1998	**1999**	1998	**1999**	1998
Sales: Pre-need	**52,232**	50,142	**–**	–	**–**	–	**52,232**	50,142
At-need	**27,372**	25,091	**73,499**	66,214	**–**	–	**100,871**	91,305
Other	**–**	–	**–**	–	**576**	551	**576**	551
Investment income	**9,392**	9,083	**2,019**	405	**102**	83	**11,513**	9,571
Interest expense	**–**	–	**–**	–	**5,987**	3,609	**5,987**	3,609
Depreciation and amortization	**1,986**	1,769	**4,894**	4,072	**814**	744	**7,694**	6,585
Earnings (loss) from operations before other income (expenses)	**17,770**	18,407	**21,000**	19,217	**(10,240)**	(10,201)	**28,530**	27,423
Other income (expenses)	**(4,076)**	415	**(2,149)**	(69)	**(1,630)**	–	**(7,855)**	346
Earnings from operations	**13,694**	18,822	**18,851**	19,148	**(11,870)**	(10,201)	**20,675**	27,769
Identifiable assets	**256,236**	256,074	**362,580**	321,577	**19,045**	24,515	**637,861**	602,166
Capital expenditures	**7,470**	8,197	**19,451**	45,160	**975**	1,043	**27,896**	54,400

17. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effect of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal business operations. In common with other organizations affected by the Year 2000 issue, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

18. SALE OF ASSETS AND ASSET IMPAIRMENT

In 1999, the Company recorded a loss of $1.6 million on the sale of fixed assets, relating primarily to the disposition of three funeral homes and one cemetery.

Prior to October 31, 1999, the Company committed to dispose of two funeral homes and subsequent to October 31, 1999, the Company committed to dispose of one funeral home and four cemeteries. The expected loss on disposal of these assets is $3.6 million. A provision for this loss has been recorded in the 1999 financial statements.

The Company has identified impairment in the carrying value of certain other assets and has recorded a provision of $0.9 million in the 1999 financial statements.

19. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Unaudited Quarterly Financial Information

($000)	Jan-31	Apr-30	Jul-31	Oct-31	Year Ended Oct-31
	1999 (53 weeks) Fiscal quarters ended				
Sales	**35,837**	**39,704**	**37,009**	**41,129**	**153,679**
Investment income	**2,289**	**2,233**	**2,319**	**4,672**	**11,513**
Total revenue	**38,126**	**41,937**	**39,328**	**45,801**	**165,192**
Expenses	**31,712**	**32,751**	**34,048**	**38,151**	**136,662**
Earnings from operations before other income (expenses)	**6,414**	**9,186**	**5,280**	**7,650**	**28,530**
Other income (expenses)	**229**	**–**	**31**	**(8,115)**	**(7,855)**
Interest expense	**(1,431)**	**(1,472)**	**(1,469)**	**(1,615)**	**(5,987)**
Earnings before income taxes	**5,212**	**7,714**	**3,842**	**(2,080)**	**14,688**
Income taxes	**2,590**	**3,860**	**1,950**	**2,480**	**10,880**
Net earnings for the period	**2,622**	**3,854**	**1,892**	**(4,560)**	**3,808**
Earnings per share					
Class A Voting	**$ 0.25**	**$ 0.36**	**$ 0.18**	**$ (0.43)**	**$ 0.36**
Class B Non-Voting	**$ 0.25**	**$ 0.36**	**$ 0.18**	**$ (0.43)**	**$ 0.36**
Earnings per share excluding other income (expenses)					
Class A Voting	**$ 0.25**	**$ 0.36**	**$ 0.18**	**$ 0.29**	**$ 1.08**
Class B Non-Voting	**$ 0.25**	**$ 0.36**	**$ 0.18**	**$ 0.29**	**$ 1.08**

($000)	Jan-31	Apr-30	Jul-31	Oct-31	Year Ended Oct-31
	1998 (52 weeks) Fiscal quarters ended				
Sales	32,890	36,865	34,737	37,506	141,998
Investment income	2,502	2,396	2,092	2,581	9,571
Total revenue	35,392	39,261	36,829	40,087	151,569
Expenses	28,647	30,853	30,924	33,722	124,146
Earnings from operations before other income (expenses)	6,745	8,408	5,905	6,365	27,423
Other income (expenses)	–	–	411	(65)	346
Interest expense	(585)	(805)	(996)	(1,223)	(3,609)
Earnings before income taxes	6,160	7,603	5,320	5,077	24,160
Income taxes	2,900	3,650	2,570	2,470	11,590
Net earnings for the period	3,260	3,953	2,750	2,607	12,570
Earnings per share					
Class A Voting	$ 0.31	$ 0.37	$ 0.26	$ 0.25	$ 1.19
Class B Non-Voting	$ 0.31	$ 0.37	$ 0.26	$ 0.25	$ 1.19

Five Year Statistical Review

YEARS ENDED OCTOBER 31	**1999**	1998	1997	1996	1995
	(53 weeks)	*(52 weeks)*	*(52 weeks)*	*(52 weeks)*	*(52 weeks)*
			($000)		
EARNINGS					
Revenue	**165,192**	151,569	144,293	129,978	117,269
Earnings from operations before other income (expenses)	**28,530**	27,423	23,836	20,709	17,220
Other income (expenses)	**(7,855)**	346	–	–	–
Earnings before income taxes	**14,688**	24,160	21,543	18,473	14,696
Net earnings	**3,808**[1]	12,570	11,503	10,173	8,296
CASH FLOWS					
Provided by (used for)					
Operating activities	**13,141**	14,883	6,694[2]	4,343[2]	12,613
Investing activities	**(25,471)**	(50,376)	(30,059)	(27,680)	(22,935)
Financing activities	**14,504**	32,529	22,139	7,753	24,281
FINANCIAL POSITION					
Working capital	**30,045**	13,481	21,356	20,600	31,399
Pre-need funds and merchandise	**277,968**	254,928	214,923	190,625	169,037
Total assets	**637,861**	602,166	503,939	439,261	392,309
Long-term debt	**103,322**	86,991	50,268	30,554	24,531
Shareholders' equity	**174,664**	171,598	159,539	145,453	134,735
Debt to equity ratio	**0.59:1**	0.51:1	0.32:1	0.21:1	0.18:1
PER SHARE DATA					
Earnings *($ per share)*					
Class A Voting	**0.36**[1]	1.19	1.09	0.99	0.91
Class B Non-Voting	**0.36**[1]	1.19	1.09	0.99	0.91
Cash flow from operating activities *($ per share)*	**1.24**	1.41	0.64[2]	0.42[2]	1.39
Weighted average number of shares outstanding *(000)*	**10,589**	10,585	10,515	10,290	9,097
MAJOR RESOURCES					
Cemeteries	**44**	44	44	44	44
Crematoria	**26**	26	25	24	23
Funeral homes[3]	**96**	94	84	77	63
Care funds *($000)*	**92,332**	85,443	78,211	70,972	65,126

(1) Net earnings and earnings per share in 1999 were net of $7.6 million in unusual expenses including the loss on sale of three funeral homes and a cemetery, interest and penalties on a partial income tax settlement and a provision for asset impairment. Excluding these items, net earnings would have been $11.5 million and earnings per share would have been $1.08 per share.

(2) Cash flow from operating activities in 1997 was net of a $6.0 million payment on deposit of prior years' income taxes and interest under possible reassessment, amounting to $0.57 per share. The 1996 figure was net of a $10.6 million similar payment amounting to $1.03 per share.

(3) Arbor wholly owns 91 of the 96 funeral homes and has interests ranging from 40% to 48% in the remainder. Arbor is currently negotiating the disposal of three funeral homes.

Company Information

DIRECTORS

Daniel J. Scanlan,
Chairman of Arbor Memorial Services Inc., Toronto

Richard D. Innes,
President and Chief Executive Officer of Arbor Memorial Services Inc., Toronto

Filomena Frisina,
Corporate Secretary, Partner with Gowling, Strathy & Henderson, Toronto

Peter A.W. Green,
Corporate Director and Chairman of The Frog Hollow Group Inc., Toronto

Joseph M. Messmer,
Corporate Director, Toronto

Joseph M. Scanlan,
Vice-Chairman & Senior Vice-President, Sales of Arbor Memorial Services Inc., Toronto

Paul F. Scanlan,
Regional Sales Director of Arbor Memorial Services Inc., Toronto

Lord Shaughnessy,
Corporate Director, London, England

Robert D. Watson,
Partner with Watson Goepel Maledy, Vancouver

Philip L. Wilson,
Corporate Director, Toronto

OFFICERS AND CORPORATE MANAGEMENT

Daniel J. Scanlan,
Chairman

Richard D. Innes,
President and Chief Executive Officer

Gary R. Carmichael,
Vice-President, Government and Corporate Affairs

Mike Ayres,
Director of Information Services

Filomena Frisina,
Corporate Secretary

Gillian Mossington,
Assistant Secretary

Sales/Marketing

Joseph M. Scanlan,
Vice-Chairman and Senior Vice-President, Sales

Michael J. Scanlan,
Vice-President, Marketing

Monica M. Flanagan,
Manager of Branch Administration

Funeral Service

John S. Earle,
Senior Vice-President, Funeral Services

Jeffrey S. Scott,
President, Trillium Funeral Service Corporation

John S. Doney,
Corporate Development

Human Resources

Michelle A. Gibbons,
Vice-President, Human Resources

Cemetery Operations

Gary D. Rogerson,
Vice-President, Operations

Arnold Risbey,
Director of Properties

Construction & Development

Stephen J. Rupert,
Vice-President, Construction and Development

Finance/Trust Administration

Brian D. Snowdon,
Vice-President and Chief Financial Officer

Pamela F. Collie,
Manager of Trust Accounting

Laurel L. Wright,
Controller

CEMETERY SALES

Robert W. Lang,
Director of Sales, Western Canada

Regional Management

J. Mark Agate,
South Western Ontario

P. Gary Boyce,
Western Canada

Peter Bancroft,
Eastern Canada

Charles Duchesnay,
Southeast Central Ontario

Brian G. MacMillan,
South Central Ontario

Leonard Marceau,
South Eastern Ontario

Paul F. Scanlan,
Southern Ontario

CEMETERY OPERATIONS

Regional Management

Preston F.S. Byrd,
Quebec and Eastern Ontario

William E. Grady,
Maritimes

Kenneth Gurney,
Niagara

Rodger W. Halden,
Western Ontario

P. Bradley Hunter,
Central/Eastern Ontario

James Risbey,
British Columbia

Bruce Slack,
Central/Western Ontario

FUNERAL OPERATIONS

Regional Management

Terry A. Eccles,
South Western Ontario

David J. Scanlan,
Western Canada

Douglas A. MacDonald,
Maritimes

Denis Marcoux,
Quebec and Northern New Brunswick

Jerry Roberts,
Central and Eastern Ontario

Valerie Scott,
Funeral Planning, Ontario

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AUDITORS

Deloitte & Touche LLP

PRINCIPAL BANKERS

The Toronto-Dominion Bank

Bank of Montreal

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company of Canada

PRINCIPAL TRUSTEES OF FUNDS

TD Trust Company

Royal Trust Corporation of Canada

STOCK INFORMATION

The Company's shares have been listed on the Toronto Stock Exchange since 1973. Information concerning its shares follows:

Class of Shares	A(Voting)	B(Non-Voting)
Stock Symbol	ABO.A	ABO.B
Cusip#	038916-10-2	038916-20-1
Market Price (at October 31):		
1999	$12.00	$12.10
1998	18.00	18.50
1997	25.50	25.50
1996	23.25	23.00
1995	25.63	24.00

ANNUAL MEETING

The annual meeting of Arbor Memorial Services Inc. will be held in the Brulé Room, The Old Mill, 21 Old Mill Road, Toronto, Ontario, on Thursday February 24, 2000 at 10:00 a.m. (Toronto time).